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# How Local Political Economy Dynamics are Shaping the Belt and Road Initiative

Neil Loughlin and Mark Grimsditch<sup>1</sup>

## ABSTRACT

The Belt and Road Initiative's ambiguity has opened the door to varied interpretations. Developing a structural political economy analysis, we push back against overgeneralized one-directional accounts in favour of a more nuanced localized reading, to show how recipient state political economy dynamics mediate the BRI as it unfolds in participating countries. We demonstrate this through analysis of Cambodia's industrial development, drawing from evidence of Special Economic Zones (SEZ), and specifically the Sihanoukville SEZ, now touted as a "model" of BRI cooperation by both China and Cambodia. We show this model to be a continuation of earlier neoliberal logics of uneven growth and precarity, perpetuating Cambodia's conflictual authoritarian developmentalism. This investment, now increasingly framed under the BRI, supports infrastructure development and industrial expansion, feeding the ruling Cambodian People's Party's (CPP) longstanding elite-patronage system, while generating jobs for ordinary Cambodians in manufacturing and other low-added value industries. In our analysis local political economy dynamics and contestation emerge as critical for explaining trajectories and outcomes associated with the BRI. In the process we unpick the discourses ascribed to the BRI in Cambodia and more broadly. Our findings have implications for policymaking in Cambodia, China, and for other development actors engaging with the BRI.

## Introduction

Since China launched the Belt and Road Initiative (BRI) in 2013, it has become the subject of much debate. Critics, most prominently in Western policy circles, depict it as a determined and deliberate effort directed by the Chinese leadership to leverage its financial might to further its geostrategic interests. The initiative is cited as key evidence of Xi Jinping's more assertive foreign policy, part of a centrally planned scheme for projecting China's economic and military power abroad, while strengthening incumbent autocrats preferred by Beijing (Rolland 2017). It is also regularly touted as a vehicle for China's "debt trap diplomacy," by which it hopes to saddle participant countries with debt in order to make them pliable to Beijing's interests (Blanchard 2019).

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However, the BRI cannot be understood by focusing only on China-side dynamics. This is because it is being shaped by forces exogenous to China from within countries participating in the BRI. Recent critical scholarship has pushed back against a top-down reading of the BRI, paying attention to local dynamics in China and within host countries. Rather than a debt-trap, Calbrese and Cao (2020) have illustrated that recipient states possess significant agency to balance their bilateral debt relations, and the debt-trap narrative has been persuasively debunked in recent years (e.g., Bräutigam and Rithmire 2021). Many projects subsequently labelled as BRI are actually initiated by host country governments, rather than pushed by Beijing, and may be motivated by priorities of the state in question, and/or its elites (Hillman 2020). These interpretations of the BRI thus highlight considerable variation, and projects are by no means guaranteed to strengthen incumbents in power, as evidenced by several high-profile BRI projects generating popular discontent, with host governments incurring considerable grievances from the populace (Jones and Hameiri 2020).

In a recent intervention, Jones and Hameiri (2020) argued that Chinese development financing associated with the BRI is far too fragmented and chaotic to be understood simply as a reflection of Beijing's strategic objectives. They suggest the BRI is "actually being built piecemeal, through diverse bilateral interactions" (Jones and Hameiri 2020, p. 3). Contributing to this new critical scholarship, in this article we propose a framework that foregrounds local socio-political and political economy dynamics as central to understanding the BRI as it is articulated in host countries. We push back against overgeneralized accounts in favour of a more nuanced, localized reading by demonstrating the utility of applying structural political economy analysis (SPEA). This involves paying attention to forces beyond the state in China and partner countries, to the myriad other actors who inhabit and contest the initiative and thus, ultimately, project outcomes and beneficiaries (Hutchison et al 2014). We situate the BRI within what Hameiri and Scapello call the "endless struggles between social forces over how resources are to be distributed, who is to benefit, and where power resides" (2018, p. 149). We consider the BRI as produced by "contextually specific interactions" that, like earlier development interventions and investment from other countries, operates at a range of scales within local, national and international contexts, historical legacies, institutional frameworks and political struggles (Brenner and Theodore 2002, p. 349). We thus show the dynamics shaping the BRI will be context specific and "locally articulated" (Springer 2011), with local conflicts in recipient countries shaping bilateral relations, and the areas and extent of BRI cooperation.

Cambodia provides a particularly pertinent case study for developing such an approach. In the context of the contending explanations ascribed to the BRI within various policy and scholarly communities, the scale of Chinese investment in Cambodia has resulted in frenzied international speculation over its drivers, and the implications of closer economic relations between the countries. The result is that Cambodia's participation in the BRI has been linked to a range of other economic and political developments that have been folded into global narratives over the initiative. The view from Cambodia thus provides a window to explore the

contending narratives of the BRI, while unpicking its material realities in an important host country.

Domestically and abroad, Cambodia's participation in the BRI has been presented by some as China's debt-trap diplomacy in action; referred to as evidence of China's "dangerous expansionism" (Sam 2019) with "clear negative impacts on the country's development trajectory" (IRI 2019). The escalation of this narrative is high stakes for both China and Cambodia. In response, in rhetoric from Beijing and Phnom Penh, Cambodia's adoption of the BRI is presented as a "model" of political and economic engagement, with supportive observers hailing it as pragmatic cooperation supporting sovereignty, multilateralism and globalization as opposed to the confrontational approaches of others, particularly the US (*China Daily* 2018). As a small developing nation, Cambodia should typify the kind of one-sided relationship pushed by the BRI's detractors. Certainly, it has emerged as a key BRI partner: while Chinese global investment and policy bank financing has been in decline since 2016,<sup>1</sup> investment has increased relatively steadily in Cambodia since 2015 (MOFCOM 2020). With Cambodia's China linkages implicated in its more authoritarian turn as it has tilted to Beijing (Lawreniuk 2020; Un 2019) and the increasing global competition between China, the US in which Cambodia is awkwardly positioned (Loughlin 2021), the anxieties over its embrace of the BRI are even more pronounced, warranting further investigation.

The BRI is a nebulous framework for a broad range of projects (Olinga-Shannon and Barbesgaard et al. 2019), supporting a localized focus. We present evidence from the Sihanoukville Special Economic Zone (SSEZ) because it is recognized as a "signature" BRI project in Cambodia (Franceschini, 2019). It enjoys high level support by both governments and was recently touted as inspiration for a new wave of SEZ investment in Cambodia, with Xi Jinping labelling it a "model for practical cooperation" between the two countries (*People's Daily* 2017). It was one of the original 19 overseas special economic zones selected for support by the Chinese state in 2006, and thus its evolution offers insights into the development of the BRI as it has unfolded over time. It is also the site of contestation, with the main interpretations of the BRI in general applied to this specific case, making it a relevant test case to examine those claims.

Our focus on SEZs and the SSEZ in particular shines a light on the kind of "economic growth" spurred by the enhanced "physical connectivity" facilitated by infrastructure projects more commonly associated with the BRI (Hameiri et al., 2019, p. 1404). While much attention on the BRI has thus far centred on infrastructural projects, including in Cambodia (e.g., Chheat 2021), the initiative encompasses a wider range of projects worthy of attention (see also Camba 2021). These projects are a vital part of the "broader economic package" of finance and trade agreements in China's development cooperation overseas (Rossler 2020, p. 301). China's global development agenda was significantly revamped in 2018 and 2020 (Zhang 2019) reconfirming the official five-point framework of the BRI, of which trade promotion (and industrial development) are key. The SSEZ aligns with the BRI vision (NRDC et al. 2015) to rely on "core cities" using key industrial parks as cooperation platforms. Through these platforms, the initiative seeks to "explore a new mode of investment cooperation, working

together to build all forms of industrial parks such as overseas economic and trade cooperation zones ... and promote industrial cluster development.” According to China’s BRI Leading Group, SEZ’s symbolize “the new industrial revolution to cultivate new driving forces and new business models to maintain the vitality of the economy”, with the SSEZ cited as an example of such a BRI achievement (NRDC et al. 2019).

Rather than a top-down strategy unilaterally imposed by Beijing, we show through our focus on the SSEZ why the BRI is highly attractive to elites within in recipient regimes by supporting their dominant positions in existing social and material hierarchies. In Cambodia, the BRI is another useful tool being instrumentalised by the Cambodian People’s Party (CPP) under Prime Minister Hun Sen to try to achieve regime stability. Outside investment is a critical source of patronage that binds the party-state and economic elites that form the nucleus of Cambodia’s political regime. It also provides jobs for ordinary Cambodians in manufacturing and other low-added value industries. This system predates the announcement of Belt and Road, having been established and perpetuated through previous development agendas before Chinese capital was the dominant source of FDI in Cambodia. However, with Chinese FDI now a crucial driver of Cambodia’s economic development, it has become the engine that perpetuates this system, and is similarly contested by groups exploited and/or marginalized by it, shaping Cambodia’s development trajectory amid domestic and international political contestation.

Applying the SPEA to the present moment in Cambodia’s politics specifically, in which the CPP has cracked down against a countermovement that challenged its grip on power (Un 2019), and with Cambodia’s manufacturing workers who populate its SEZs a major force contesting the political and economic status quo, we consider the BRI through the lens of an authoritarian regime attempting to maintain its political dominance by blunting horizontal and vertical pressures to its rule (Svolik 2009). Closer linkages with China have featured prominently in analyses of Cambodia’s deepening authoritarianism (Lawreniuk 2020; Loughlin 2021). Our SPEA highlights the CPP’s attempts to mitigate popular discontent via the perpetuation of an economic bargain that predates the BRI and which was recently exposed as a fragile basis for long-term stability (Lawreniuk 2020; Loughlin 2020). Rather than static, we show that projects such as the SSEZ are implicated in broader struggles between a range of actors, with Chinese development financing and the private investment it stimulates operating in an already highly contested space. As our argument progresses, we reflect on the range of discourses and meanings of the BRI and closer bilateral relations between China and Cambodia. We note the BRI’s regional and international dimensions in relation to shifting power dynamics, which find expression in a “social space” (Lefebvre 1974) in the province of Preah Sihanouk.

### **Foregrounding Political Economy Dynamics in Recipient States**

The original focus of SPEA was the political economy of the aid industry, however in our view the underlying assumptions and strategies used to analyse these interventions provides a critical lens through which to interpret the BRI. It provides the tools to explore the political economy of the BRI focusing on the structures, politics, and development ideologies in China and host countries, which we apply to the Cambodian case.

Of particular importance, SPEA views development as a “process of contested structural change” (Hutchison et al. 2014, p. 78). This structure is historically created but perpetually in motion, privileging the interests of some actors according to their material position in the prevailing economic order, while being contested by various groups. Adopting this approach thus means paying close attention the historical context in which initiatives such as the BRI exist. It shows that what matters for development outcomes are “the kinds of social forces involved, their interests and how they are organised in relation to different social agendas” (ibid, p. 78). This is because external interventions are inserted into “ongoing development struggles,” between “unequal societies... formed of dominant and subordinate groups” (ibid, p. 68). Recognizing this fact provides the window from which to view how these interventions interact with and are shaped by these forces (ibid, p.103). Thus, the BRI will be mediated by the material structure in which it operates, which conditions how actors will seek to engage, shape, and contest it.

Development ideology is another important element highlighted by the SPEA that is relevant for understanding the BRI as it operates in host countries. This is because the normative biases and particular notions of development shape the types of investment and intervention invited and procured by them (Hutchison et al. 2014). In the context of the BRI this is particularly important: China’s development financing system is recipient-led, with would-be recipients usually seeking funding, and no projects can be developed without host-government approval. This entails substantial agency for recipient elites to shape the BRI itself. As we show, this helps explain Cambodia’s appetite for industrial parks stimulating private capital investment, thus supporting its ongoing “neoliberal developmentalism” (Lawreniuk 2020).

Adopting a SPEA separates our approach from other recent analysis that extend the ‘political economy turn’ to the BRI, for example those that focus on “political settlements” (e.g., Calbrese and Cao 2020). Under the SPEA, political settlements are never settled but are continually being challenged and rebuilt (Hutchison et al. 2014, p. 80). Development interventions provide new modes of accumulation and resistance that are constantly being rebalanced, negotiated and contested (see also Hameiri and Jones 2020, p. 15-16). Moreover, outside investment and development assistance can never be “not political,” for by its very nature it is an intervention into an existing political context. As such, these exists in a broader development ecosystem in which local actors will seek to instrumentalise outside investment to better suit their political aims and economic positions.

Drawing from SPEA, we have developed three main questions for analysing the BRI, which we apply to analysing the SSEZ. 1) What are the social forces contesting political and development trajectories, and what is the political economy context in which they are rooted? 2) How do these groups contest development, and how does this inform their attitude *vis-à-vis* the BRI? 3) How are the costs and benefits of the BRI projects distributed across different groups, and how does this affect their strategies and struggles?<sup>2</sup> These questions inform our analysis throughout. Noting the internationalisation of Cambodia’s political and economic

struggles, we are also sensitive to the international and domestic contestation significant to how the BRI operates in Cambodia, and elsewhere.

This lens explains how different groups will attempt to shape the BRI, making local contexts vital to understanding variable outcomes. Thus, in Malaysia, local elite interests have channelled certain types of development projects under the BRI, which in some cases have been politicised, and fed into existing social conflicts revolving around the country's pro-Malay ethnic politics (Liu and Lim 2019). Until recently controlled by the long dominant UMNO, Malaysia's 2018 election involved massive controversy over corruption, resulting in the government's replacement. Newly re-elected Prime Minister Mahathir mobilised popular antipathy to Chinese investment, portraying it as evidence of China's "new colonialism" thus stoking ethnic tensions within Malaysia's politics, promising to suspend and renegotiate projects associated with the BRI, which he successfully did. The BRI question is far from resolved, and the existence of "duelling clientelist networks" (Weiss 2020) means it will likely remain a source of contention, with local political struggles continuing to shape it on the ground, as Malaysia remains an important BRI partner. In Indonesia, different dynamics are observable, reflecting its own political economy and sources of conflict. Evidence suggests that investment feeds the country's longstanding clientelist politics, however, Indonesia's relatively open political system, media freedom, and public wariness of the influence of foreign actors has provided a degree of political accountability to actors seeking to get involved in BRI projects (Bayuni, 2020). Meanwhile in Singapore, which operates within a different political economy context again, the People's Action Party (PAP) seeks to leverage its competitive advantages to bolster its financial sector engagement with the BRI (Wei 2019), buttressing its own brand of performance legitimacy. For reasons already outlined, Cambodia provides an important host state from which to analyse the BRI, and Cambodia's rapacious appetite for outside investment—including that framed now through the BRI—can be particularly well explained applying a SPEA, in the context of its post-war political trajectory and recent legitimacy crisis.

In the next sections of the paper, we consider the evolution of these struggles as they meet and are shaped by the BRI, understood in terms of the evolution of SEZs in Cambodia, and exemplified through the SSEZ. We first turn to address some of the narratives over the BRI that have taken hold in Cambodia, but which we suggest obscures its more consequential manifestation through the evolution and recent expansion of industrial zones. We then through our case study draw attention to how Cambodia's SEZ sector has evolved since the late 1990s, and its intersection with the evolution of the BRI in China. We describe and explain the structural context of Cambodia's political economy, focusing on the major currents of Cambodia's patronage politics and the regime's attempts to generate legitimacy under a specific developmental ideology. We highlight the role of local tycoons as conduits for foreign capital in this arrangement, and the benefits it is supposed to provide ordinary Cambodians. As our argument develops, we show how these forces are related to contestation of the BRI's operationalization. Finally, we consider Cambodia's BRI "model" in light of these findings and outline future areas of potential contestation. To make the case, we draw on interview data, case material, online media, non-government organisation (NGO) reports and official

documents in English, Khmer and Chinese gathered by the authors over more than a decade working on these issues in Cambodia and China in academic and practitioner contexts.

### **The BRI: Between Mythmaking and Reality**

In this section we address the BRI as it is often presented and narrated. This is important because the ‘myths’ (Jones and Hameiri 2020; Bräutigam and Rithmire 2021) of the BRI have utility for a range of actors inside and outside host states, and highlight the forces contesting it. In Cambodia the BRI intersects with a range of other factors that are discursively related, especially those linked to nationalism and historic concerns over its independence in the face of stronger regional neighbours, decades of intense struggle between the CPP and competing political forces, growing US-China rivalry, and internationalised concerns in the EU and elsewhere over Cambodia’s domestic political crisis. Given that the SSEZ has been folded into these narratives as exemplifying the BRI’s worst and best aspects, this is particularly significant. This was perhaps most clearly apparent in the ways in which concerns over Cambodia’s recent gambling bubble, centred on the city of Sihanoukville, filtered into debates over the initiative.

Unlike actual BRI projects, which are endorsed by the Chinese state and supported at least in part by state-backed finance, the gambling boom was largely driven by illicit private Chinese capital. Between 2017 and 2018, the number of licensed casinos in Cambodia jumped by 50%, the majority of which were located in Sihanoukville (Hor 2019). Along with in-person gambling, which brings tourists from China and other countries where gambling is prohibited, an extensive online gambling industry also grew in a short space of time. Although some operations were licensed, many were not, and the industry as a whole was deeply implicated in criminal activity, especially money laundering and fraud. Gang activity and crime spiked with the expansion of online gambling in Sihanoukville, leading to a ban on the industry being announced in August 2019, reportedly due to pressure from Beijing (Kittisilpa and Baldwin 2020). The Cambodian government was likely willing to impose the ban due to the tsunami of bad press and ill-feeling over events in the city, which also had negative implications for the perception of Chinese investment in the province of Preah Sihanouk in general, including the SSEZ. Beyond Sihanoukville, this stoked widespread contention over Chinese investment in Cambodia. Over the longer term this has allowed a new, nationalist and often xenophobic rhetoric to take hold in Cambodia that is deeply anti-Chinese and highly sceptical of the BRI.<sup>3</sup>

Endorsing the debt-trap narrative, the former leader of Cambodia’s recently dissolved opposition movement, Sam Rainsy, has suggested that through projects such as the SSEZ, Cambodia is emerging as “a compliant and corrupt Chinese colony,” in which “Cambodian people do not see any of the wealth” that Chinese businesses generate in Cambodia (Sam 2019). Despite being obviously misleading, it fits a narrative emerging in some quarters in Cambodia that the BRI is the tool through which China seeks to dominate and profit from its development while undermining its independence. This also appears to be calculated toward a US foreign policy community, tying fears over BRI investment to China’s strategic ambitions on Cambodian soil, against which the US has urged Cambodia to “assert its sovereignty” against Chinese “interference” (Hutt 2020).

Cambodia's Prime Minister Hun Sen has publicly pushed back against the debt-trap narrative and also promised to get a handle on the gambling boom and disorganised development in Sihanoukville. Attempting to leverage it to his advantage, he has invited countries concerned about China's activities in Cambodia to invest themselves, stating "if other countries are concerned about China's presence [in Cambodia] they should increase their investments too" (Hun 2019). He also promised to personally preside over Sihanoukville's development.

At the bilateral level, the governments in Cambodia and China have gone to great lengths to present the initiative as an example of mutual cooperation, strengthening rather than depleting sovereignty by contributing to trade diversification. Here the contrast with EU and US trade policies is prominent, as these are presented as placing unfair conditions on Cambodia, with Chinese investment and the BRI a counterpoint to "protectionism." Recognizing the dangers of the negative framings of the BRI, sympathetic think pieces in Chinese, Khmer and English language media plug BRI narratives of mutual cooperation and benefit. As one put it, "Cambodia's success will provide a success story for both BRI and China's vision of a community of a shared future for mankind... A role model of the modern relationship between a great power and a small state based on the principles of equal sovereignty, mutual respect, and win-win cooperation" (Cheunboran 2019).

This exemplifies how, discursively, the BRI has come to mean more than the projects that are actually sanctioned by Beijing and is being contested by competing forces of Cambodia's politics and internationally. However, this has also had the effect of shifting the focus away from the types of projects which, in our view, are far more consequential to Cambodia's development trajectory over the longer term. We now shift that focus back to consider a project and a sector that *is* recognised as at the core of the BRI by the Chinese and Cambodian governments and their detractors alike, through our analysis of the SSEZ.

### **Unpicking the BRI through its Local Articulations: The Sihanoukville SEZ**

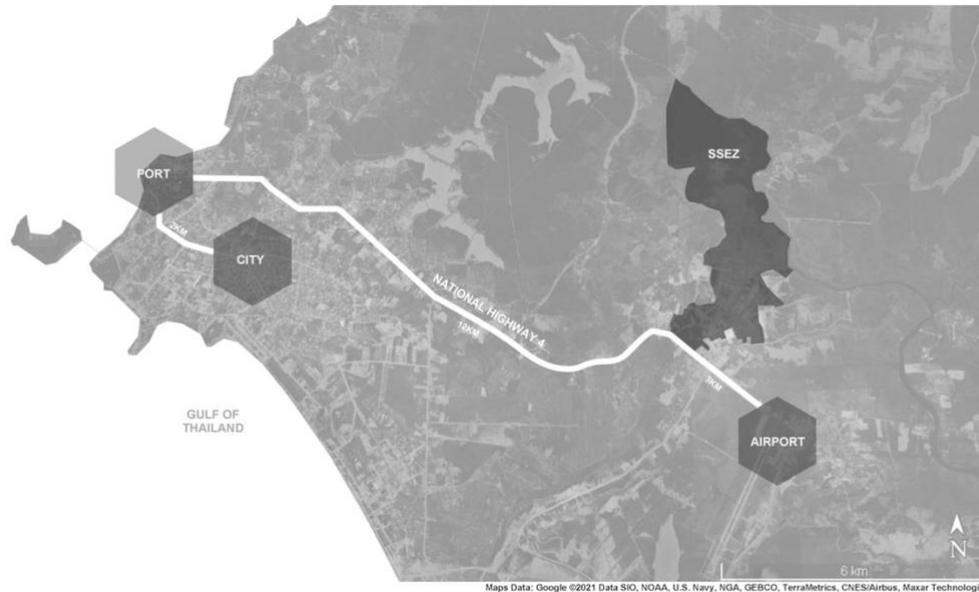


Figure 1. *The SSEZ covers 11.13 square kilometres and is strategically located in close proximity to National Road 4, Sihanoukville Airport and Cambodia’s only deep-water port.*

### ***The Evolution of the SSEZ: Cambodia’s Developmentalism Meets the BRI***

As noted by much of the recent scholarship on the BRI, notions of neo-colonialism, or a debt-trap, are misplaced. In our view, the SSEZ exemplifies trends in China’s overseas investment strategy as they meet Cambodia’s own appetite for inward investment and infrastructural development. As such, a better framing is to see the evolution of the SSEZ in Cambodia in terms of China’s evolving development priorities since the early 2000s. Through its “Going Global” strategy, the Chinese state encouraged and supported Chinese enterprises to establish themselves abroad, driven by the slowdown of China’s own capitalist development, which became unsustainable over the long term. This later evolved into the BRI as the latest in a series of “spatial fixes” to address overaccumulation of capital and industrial capacity at home by seeking new markets for Chinese contractors, money, and manufacturers abroad (Olinga-Shannon and Barbesgaard et al. 2019).

From the late 1990s, Cambodia began promoting the establishment of industrial zones as part of its long-term development agenda through its ‘Triangle’ and later ‘Rectangular Strategies.’ Cambodia’s SEZs became particularly attractive to foreign investors due to the favourable access they provided them to the US and European markets. This was a result of Cambodia being granted preferential trade terms with the US and the EU in 1997 and 2001 respectively, as part of their efforts to stimulate economic development in Cambodia. Many of the early investors in Cambodia’s manufacturing were based in Taiwan and Hong Kong (Hun 2005).

Thus, the prioritization of SEZs and supporting infrastructure is not something that was exported by Chinese actors under the BRI, it was encouraged and honed with support from international multilateral and bilateral partners, back when China was not yet a major actor in Cambodia's development landscape.

Chinese firms became more significant players in Cambodia's SEZs around the mid 2000s, following the pronouncement to 'go global', and Cambodia's WTO accession. Cambodia's relatively low labour costs, attractive tax schedules, dollar economy and no controls on capital mobility made SEZs an attractive prospect for Chinese companies to realise their overseas investment goals, particularly in Cambodia's then nascent but now vital garment industry. Even where garment factories are wholly Chinese-owned and mostly utilize materials produced and cut in China, providing that their products are assembled in Cambodia they can benefit from relaxed tax regimes and quotas when exporting to Europe and the US, which is an important draw for investors. Industrial zones such as the SSEZ are particularly attractive for inexperienced private companies. Investing in foreign countries is an intimidating prospect, but within the safety of a zone that is Chinese managed and has strong state backing, the prospect is much more attractive. Supporting the overseas industrial zone model, Chinese companies were encouraged to "go global in groups" (Bräutigam and Tang 2013, p. 79). The SSEZ is a strong example of this, with Chinese companies representing over 85 percent of the zone's tenants as of 2018. The SSEZ thus exemplifies trends in the direction of China's overseas investment as they meet the priorities of host states.

Following the "regulatory state" conception of Chinese foreign policy making (Jones 2019), the SSEZ has been shaped by multiple stakeholders in government and businesses at the various administrative levels, responding to national level guidance. After being identified as one of 19 pilot overseas special economic zones in 2006, the SSEZ was initially developed as a consortium of three Chinese companies that formed a joint venture with a leading Cambodian tycoon in 2006. However, the project stalled when it "ran into difficulties with the Cambodian partner" (Bräutigam and Tang 2012, p. 811). China's Ministry of Commerce brought the Chinese parties together, along with representatives of Wuxi Municipality, to seek a solution. Wuxi Municipality, which was already considering investing in the SSEZ, encouraged the Chinese firm, Hongdou, to take over the project. The company already operated a large industrial zone in Wuxi, and Hongdou had the experience and capital to bring the project back on track (ibid), while also addressing some of the domestic issues the company was facing at the time due to the rise in production and salary costs in China during the 2000s. As a result, the opportunity to invest in a new project in an emerging low-wage manufacturing hub in Cambodia would have undoubtedly been an attractive prospect to the company that has since put its continued success during these "changing times" down to diversification into new areas domestically and overseas (Flannery 2015).

That the Chinese state took such a strong role in supporting the project also demonstrates the political investment China was putting into its evolving relations with Cambodia at the time, as it emerged as a major investor in the country (Un 2009). As such, Beijing would have been reluctant to see one of its first officially recognized overseas industrial zone projects fail, and

eager to deliver on commitments to the Cambodian leadership. This economic partnership has become a bedrock of Cambodia's political relations with China as it has evolved over time, which creates incentive for the Chinese government to support a political status quo that protects the large quantities of Chinese investment in Cambodia (Hughes 2014, p. 15). This is in sync with the Cambodian government's political and economic strategies for maintaining power. This hinges on an elite patronage networks and a broader project for performance legitimacy that is significantly reliant on outside investment to maintain strong GDP growth (Un and Luo 2021). Investment from China, much of which is now framed under the BRI, has become a critical part of this project, as the CPP seeks to extend its model of developmental legitimacy, which is reflected in the trajectory of the SSEZ.

### ***Patronage Politics and Developmental Legitimacy in Cambodia's Structural Political Economy***

Understanding the trajectory of the BRI in Cambodia requires an analysis of the social forces emerging from its post-war reconstruction. Cambodia's political economy is built on an elite patronage network in which CPP elites and business tycoons dominate key sectors of the economy on the basis of crony-capitalist business deals. For ordinary Cambodians, the CPP promises jobs, economic growth and development goods such as infrastructure in return for loyalty to the party (Un 2019). This is well illustrated through the SSEZ, which also illuminates the forces contesting this system, and Cambodia's development trajectory more broadly. It also reveals the ideologies that support the CPP's legitimacy claims.

Cambodia's current political system is the result of various transformations since the early 1990s: from one-party state to multi-party democracy under UN mandated peace-making; from state socialism to free market capitalism; and from war to peace (Hughes 2003). In the 30 years since Cambodia opened up to free market reforms, the ruling CPP has presided over a system of patronage-based development under a developmentalist ideology that presents abstract GDP growth as evidence of ruling legitimacy, underpinned by the threat of repression against dissenters and those marginalised by it. Thus, a decade ago Kheang Un described China's investment in Cambodia as meeting the Cambodian government's strategy to gain political legitimacy through state developmentalism, which he described as "economic prosperity with tight political control" (2009, p. 65). We see this as according with Cambodia's instrumentalising of the SSEZs and other projects now labelled under the BRI, as an evolution in its use of outside investment to shore up the CPP party-state.

Under the CPP's elite patronage system, personal relations with the Prime Minister and other senior government figures result in key members of the economic elite "being given access to lucrative contracts, licences, concessions, subsidies and monopolies" (Cock 2010, p. 256). It has resulted in the establishment of a group of economic entrepreneurs who are dependent on the status quo for their now substantial wealth, linked to global capitalist networks (Heder 2005). This system has tied political, military and business actors to the Prime Minister and senior party leadership, giving them a stake in the CPP regime (Loughlin 2020). SEZ development, and the embrace of capital pouring in through the BRI, presents an opportunity

for Cambodia's elite to extend this so far highly successful system of domination, while further embedding the Prime Minister at the apex of Cambodia's political economy.

This is manifest in practice in Hun Sen's chairmanship of the Council for the Development of Cambodia (CDC), the highest decision-making body governing both private and public sector investment in the country. The CDC is headed by Sok Chenda, who is its Secretary General as well as being Minister attached to the Prime Minister. Since 2005 he has been a member of the CPP's Central Committee, the party's highest decision-making body.<sup>4</sup> The CDC's political role was reaffirmed in 2018 when its Deputy Secretary Chea Vuthy was added to the CPP Central Committee (Post Staff 2018). The Cambodian Special Economic Zone Board sits under the CDC.

The majority of the most advanced SEZs have been developed in partnership with local Cambodian entrepreneurs who have forged close relations with important members of the CPP government over the past three decades. Their primary benefit from their role in SEZ development is in the leasing of land and acting as brokers for foreign investment capital (Kelsall and Heng 2015). Local tycoons hold minority stakes in several SEZs, with Chinese and other foreign multinationals leading development and zone management. A case in point, the Cambodian company involved in the development of the SSEZ is owned by members of Senator Lao Meng Khin's family, and chaired by his wife, Choeung Sopheap. Together they have been key players in multiple sectors over the past three decades. At the ground-breaking ceremony for the SSEZ in 2008, Hun Sen personally thanked Lao Meng Khin for helping him bring it to fruition (Hun, 2008). This close personal relationship with the Prime Minister and his wife, Bun Rany, has been critical to their success. Choeung Sopheap sits on the Board of Directors of the Cambodian Red Cross (CRC), the CPP's unofficial charitable arm, which solicits donations from all the major business actors in Cambodia (as well as senior government and military officials). The CRC is chaired by first lady Bun Rany.

Aside from buttressing the CPP's elite patronage networks, SEZs, and the manufacturing sector more generally, are central to the party's ideology of capitalist development. This is driving the need for investment in SEZs, and an area in which the structure, politics and ideology of development comes to the fore, in a system preceding the BRI but now forwarded through it. This ideology is threaded through with a domestic commitment to provide stability under a system managed paternalistically by the CPP, and particularly Hun Sen, guaranteeing riches for the elite and the trickledown benefits of economic growth for everybody else (Hutchison 2014, p. 86).

Hun Sen articulated the role foreign capital plays in his development philosophy and political strategy during a speech on Labour day at the Sihanoukville Port SEZ in 2008. Channelling Lenin via Deng Xiaoping (with a nod to former Thai Prime Minister Chatichai Chunnhavan), he emphasized the importance of foreign "capitalist" investors for "catching mice," as part of the process of turning Indochina's "battlefields into markets". As he put it: "if there were no capitalists who then would have the resources to set up factories, etc. Without factories there would be no jobs" (Hun 2016). Seeking to claim credit for driving investment in Cambodia, at

a ceremony to mark the 100<sup>th</sup> business opening at the SSEZ in 2016 Hun Sen asked rhetorically: “were there no actions taken by Hun Sen, would there be any factories/enterprises in the whole country?” (Hun 2016).

When fully developed, the SSEZ will have space for 300 factories, and the developer claims 80,000 to 100,000 industrial workers will be employed. By March 2020 174 factories, reportedly employing 30,000 people, were active on the site, making the SSEZ Cambodia’s largest export base (*China Daily* 2020). According to Cambodia’s Minister of Commerce Pan Sorisak: “projects linked to the BRI such as the Sihanoukville Special Economic Zone (SSEZ) and the Phnom Penh-Sihanoukville Expressway are two ideal examples to show how BRI helps Cambodia in strengthening industrial sector, a vital area of employment and diversifying exports through transport and logistics enhancement” (Mao and Nguon 2019), This is what is on offer for ordinary Cambodians in projects such as the SSEZ.

Underwriting this arrangement, but written into the CPP’s developmental ideology, is the threat of repression guaranteeing outside investment against forces contesting it, notably the workers populating the factories such as those at the SSEZ. The SSEZ advertises the “safe political environment” alongside an “open economy” and “low labour costs” as the benefits of doing business in Cambodia.<sup>5</sup> As evidence of the CPP’s commitment to maintaining the status quo, in 2014, following the 2013 elections and concurrent labour unrest, a division of Cambodia’s counter-terror unit which is under the leadership of the Prime Minister’s son, visited the SSEZ. The Deputy Commander of the unit stated that one of their most important tasks was “to take responsibility for the stability and harmony of all the SEZs in Cambodia for counter-terrorism special operations ... and to eliminate signs of unrest initiatives” (SSEZ 2014). This protection from the top levels of Cambodian government provides a layer of stability for economic projects by providing tight political control, similar to the role the state and military has played in earlier development initiatives by policing economic land concessions (Loughlin and Milne 2020).

However, this also points us to a further political and developmental lens from which to analyse the BRI in Cambodia, beyond the elite level but illuminated through a SPEA which sees class and other struggles as a vital part of development. In reality, Cambodia’s development model has propelled the social stratification that has accompanied the reconstruction of the Cambodian economy since the 1990s (Hutchison et al. 2014. p. 85). This is the system that the BRI now latches on to and is thus a far more consequential lens to analyse its impact on ordinary Cambodians than notions of neo-colonialism pushed by its detractors. The SEZ model in Cambodia predates the rise of Chinese capital in the country, and the SSEZ predates the BRI. However, with this development model thoroughly embraced and the zone branded a landmark BRI project, the initiative now forms part of a broader and long-term shift in Cambodia’s productive relations from agrarian peasant farming to manufacturing. This reproduces a trend seen elsewhere in Southeast Asia (Carrol 2020), Africa (Bräutigaman and Tang 2014) and including SEZ development in SEZ’s under the BRI in Myanmar (TNI 2019). It is also an area in which Cambodia’s workers have emerged as capable of shaping the country’s politics in recent years, not least the country’s garment workers.

In Cambodia the garment sector and its workforce emerge as the “embodiment of the contradictions of Cambodia’s neoliberal development” (Lawreniuk 2020, p. 1175). Rapid economic expansion has driven Cambodia’s economic boom, while wages remain below the living wage, and living conditions substandard. Unsurprisingly, this has proved a precarious model for stability. Capital-labour relations have emerged as a critical area of conflict between the CPP and the broader society over the past two decades. A pattern of labour suppression by the state in favour of capital emerged through the 2000s and 2010s. This fed into the country’s political crisis in 2013, as widescale labour unrest culminated in massive protests in Phnom Penh, before it was violently suppressed by the security forces in 2014. The CPP’s recent strategy towards its industrial workforce has been to offer targeted wage increases on the one hand, while vigorously and sometimes violently suppressing organised labour on the other. This appears to have stabilised relations between the state and organised labour for now, relying on new innovations of repressive labour relations (Ford et al. 2020).

Noting this contestation in a speech at the SSEZ in 2016 Hun Sen urged workers to “defend the factory,” likening factories to the country’s “rice pot,” and telling them not to strike or create “turmoil” or threaten stability thus provoking capital flight (Sen and Kossov 2016). This also reflects the precarity of employment through SEZs, as the type of flexible private capital fuelling garment and other factories populating the industrial parks has proven to be highly exposed to market downturns, thus exposing workers depending on these jobs for subsistence and supporting their families. Intentional or not, this is also the ‘model’ Chinese capital feeds into through investment in the SSEZ and other industrial developments and the lens to understand how it materializes in Cambodia. In our view, it is this conflict between social forces that are most consequential to understand the CPP’s embrace of the BRI.

### ***The Model for BRI Cooperation?***

The SSEZ thus emerges as a highly consequential project for understanding the BRI’s trajectory as it actually exists in Cambodia, defying the easy categorization of top-down narratives. Applying a SPEA opens the door to analyse the range of actors involved in the SSEZ as a now signature BRI project. For China, investment in SEZs creates opportunities for its investors to establish overseas manufacturing bases, while development of such zones creates the need for infrastructure development that generate contracts for its major companies. For the CPP, rapid industrialisation and the establishment of its manufacturing sector supports its development ideology, and a legitimacy narrative that depends on continual economic growth. This system pre-dates the BRI, but now the BRI is a key driver of it.

What emerges, then, through the analysis of the SSEZ, is a contested model of industrial development that feeds and is shaped by ongoing development struggles. Various actors participate in this model as means to reproduce their positions within established political and material hierarchies. Thus, Hun Sen and other powerful senior leaders have positioned themselves at its centre, dispensing contracts to Cambodia’s tycoon elite, who partner with foreign investors to develop the zones, maintaining the lines of elite patronage that have been central to the CPP’s political dominance. However, also vital to understanding this system are

Cambodia's workers who populate the factories of the SEZ and who have proven powerfully capable of contesting their position within the status quo. Applying a SPEA thus provides a deeper level of analysis from which to understand a the BRI as it materialises in Cambodia.

These contests may again prove significant going forward, as the Cambodia government is currently positioning Preah Sihanouk province as “the second Shenzhen,” and slated for a massive expansion of industrial zones along the lines of the SSEZ (May 2020). This supports the CPP's larger economic goal to become a higher middle-income country by 2030 and a developed country by 2050, marking the shift from a subsistence-based economy. Investment through the BRI will be vital for realising these goals. As the model being reproduced through the expansion of SEZs is one that relies on access to Western markets it opens the door for future engagement in shaping Cambodia's development trajectory, or future international contests. It also remains an area that is open to future worker discontent.

Moreover, Cambodia's SEZ development operates within a context characterized by serious long- and short-term problems evident in Cambodia's macro economy. These have been exacerbated by the COVID-19 pandemic, which depressed Cambodia's labour market, compounding the multiple crises already facing workers. The World Bank (2021) showed that Cambodia's economy registered negative growth of -3.1 percent in 2020. A slow global recovery poses a risk in areas vital for the country's economic and social stability, most critically the garment sector. The sector employs upwards of 750,000 people, each of which has an average of around four dependents. The repercussions of a downturn in the sector would therefore be wide-reaching (LICADHO 2020). A powder keg in the current crisis, Cambodia' labour force is already severely indebted, with Cambodia having the highest average income debt per borrower in the world (Turton and Mech 2020). Spiralling debt burdens are severely impacting the livelihoods of workers, who are being pressured to sell land and take-out new loans to pay back existing ones (LICADHO2020, p. 3). This has risen to the top of the political agenda in Cambodia, with the opposition leader calling for “passive resistance” and the Prime Minister encouraging Cambodian banks to seize property if people refuse to pay back their loans (Turton 2020a).

Longer term the EU's partial withdrawal in 2020 of trade preferences may prove particularly significant as international politics and local struggles intersect in the context of Cambodia's SEZ development. In support of this withdrawal, the EU cited human rights concerns, the suppression of organized labour and Cambodia's democratic rollback following the contentious national election of 2013. This has raised considerable concern in Cambodia, including among the CPP's supporters within the tycoon business class.<sup>6</sup> The withdrawal of trade preferences threatens the attractiveness of Cambodia's manufacturing sector to Chinese private investors, a key driver of capital inflows, and thus jobs for Cambodians in these factories. The withdrawal increased the cost to EU buyers of purchasing goods from Cambodia, resulting in a drop in orders from the EU. This drop was absorbed by a surge in orders from the US, which has become Cambodia's top export market (Turton, 2020b). This is precarious however, given ongoing friction between the US and Cambodia, and the US concern about

growing Chinese influence in the country. Any adjustment to the trade preferences offered by the US could thus have wide-reaching impacts.

This emerges as a realm of contention in which the BRI forms part of a larger struggle for international influence in Cambodia. One area where this may be seen is the new Free Trade Agreement between Cambodia and China. It has been linked by Cambodian officials and Chinese state media as evidence that “comprehensive strategic partnership and BRI cooperation has entered a new era,” and is an attempt to diversify Cambodia’s export opportunities, including away from the US and EU amid the withdrawal of preferences, and bring some balance to the currently highly unequal bilateral trade between China and Cambodia (Li and Ma, 2020). However, it is doubtful that this arrangement will be able to make up for lost revenues or jobs in the garment sector (Suy 2020). This shows the precarity and complexity of the BRI’s operationalization in Cambodia, with its strong focus on supporting expansion of overseas industrial bases and export-oriented manufacturing.

Finally, SEZs, including the SSEZ, are subject to sectoral and other pressures that emerge from Cambodia’s haphazard and uneven development strategies, while also highlighting the competing demands of the country’s international investors and local crony capitalists. One way this may be observed is in relation to Cambodia’s recent heavy shift towards development of fossil fuel power generation. This has caused serious concern among major global companies that produce in or source from Cambodia and may push away these buyers. In August 2020, a letter was sent to the Ministry of Economy and Finance communicating these concerns. This was signed by major US and EU brands. The SSEZ is implicated in this issue as a protagonist as it has commenced building its own 100 MW coal plant to power the zone, stabilizing supply, but also making resident factories 100% fossil fuelled, which is likely to result in some buyers discontinuing business with zone residents. More broadly, if Cambodia does continue this shift towards fossil fuel dependency, brands may step back due to the reduced viability of operating in or sourcing from the country. This could potentially result in hundreds of thousands of job losses, and hit Chinese investors involved in the manufacturing sector (Grimsditch 2021).

## **Conclusion**

Various contending narratives have been folded into the BRI, reflecting its nebulous form. In this article we have illustrated the utility of unpicking a key project of the BRI utilising SPEA, which highlights the forces contesting development and shaping outside interventions. In Cambodia, the real political and economic significance of the BRI is how it feeds into, and is being shaped by, the country’s ongoing development struggles. If there is a Cambodia ‘model,’ as the governments in Phnom Penh and Beijing suggest there is, it is one that propels the shift from agrarian subsistence to industrial productive relations, and it relies on a tightly controlled political system. Future research applying a SPEA could illustrate and unpick the dynamics of the BRI as it is locally articulated in different sectors and country contexts, shaping strategies for engagement for development partners. Research has already begun to do so in Cambodia in relation to hydropower and other large-scale infrastructural projects, where different dynamics are at play, for example relating to land dispossession and grassroots mobilization

linked to decades of contests over the CPP's vision for rural development in the land and power generating sector (Chheat 2021). Utilising SPEA, development practitioners will be better able to identify and support projects aimed at improved livelihood outcomes, including by identifying spaces for cooperation with China and host governments, recognizing the social forces privileged, and struggles responding to, the types of development cooperation supported through the BRI in participant country contexts.

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<sup>1</sup> Boston University. 'China's Overseas Development Finance' (N.D.) <https://www.bu.edu/gdp/chinas-overseas-development-finance/>

<sup>2</sup> We would like to thank Dr Lee Jones for his input and suggestions in formulating these questions.

<sup>3</sup> Loughlin Interview with Cambodian Political Analyst, November 2018.

<sup>4</sup> CPP Central Committee list obtained by Loughlin. Document in author's possession.

<sup>5</sup> Information available on the SSEZ's website <http://www.ssez.com/en/company.asp?Ione=3>

<sup>6</sup> Loughlin interview with foreign trade official, Skype, December 2018.